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FM AMEMBASSY ASHGABAT
TO RUEHC/SECSTATE WASHDC PRIORITY 9830
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUEHAK/AMEMBASSY ANKARA PRIORITY 3078
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0893
RUEHKO/AMEMBASSY TOKYO PRIORITY 0767
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1343
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RUEKJCS/JOINT STAFF WASHDC PRIORITY
RUEKJCS/SECDEF WASHDC PRIORITY
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ENERGY FOR EKIMOFF/THOMPSON
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SUBJECT: TURKMENISTAN/INTERNATIONAL ENERGY AGENCY:
RENEWING A LONG-DORMANT RELATIONSHIP

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: During a November 28-30 visit to Turkmenistan, the Deputy Executive Director of the International Energy Agency (IEA) Ambassador William Ramsay, found a country in the process of transition. Although there were signs that leaders are becoming more accessible, old-thinking -- including in the oil and gas sector -- and a lack of confidence in dealing with large hydrocarbons companies continue to constrain Turkmenistan's ability to realize its potential. Ramsay said he raised a number of tough issues, including both lack of statistical transparency about existing reserves and the problems with finding alternative gas export routes, during his meetings with President Berdimuhamedov and the Executive Director of Turkmenistan's State Agency for Hydrocarbon Resources, but there is no indication as yet that those messages hit home.
END SUMMARY.

13. (U) The International Energy Agency (IEA) Deputy Executive Director, Ambassador William Ramsay, and Adviser on Caspian Affairs, Christof van Agt, told the Charge November 30 that their November 28-30 visit -- the first by an IEA team since before former President Niyazov's death in December 2006 -- was presenting "interesting contrasts" with their previous visit. Now, Turkmenistan's officials are talking more and seem more open and accessible, but there remains a nostalgia for the old ways among Turkmenistan's bureaucracy. IEA had come to Turkmenistan to see how the hydrocarbon situation is evolving in the Caspian, particularly with regard to development of more diversified sources of gas, constraints on exports to (and through) Russia and Iran, and whether diversification can offer more competitive prices.

TURKMENISTAN'S OLD HABITS BAD FOR BUSINESS

13. (SBU) Noting that it is a good thing that U.S. and European officials are more interested in Turkmenistan, Ramsay said that, even as he finds much that is new in Turkmenistan, rigidities still remain. Turkmenistan has done some interesting studies that show some promising formations. At the same time, the government remains unwilling to show what is under the tent. If the country genuinely wants to promote investment by foreign hydrocarbon companies, as its president says publicly, it needs to show the statistics. And, while hydrocarbon officials seemed locked into current contract arrangements (production sharing agreements with foreign companies, and not allowing foreign company involvement in onshore drilling, with the exception of the Burren Energy and China National Petroleum Company (CNPC) PSAs), they clearly do not understand the full implications of those arrangements. Although Burren is "okay," Ramsay continued, Turkmenistan is likely to be hurt in its arrangements with CNPC, because China does not play by the rules. The only reason to go forward with Turkmenistan's deal with China (for a pipeline, scheduled to open in 2009, and a PSA region located on the right bank of the Amu Darya river) is to make the point to Russia that Turkmenistan has other options.

14. (SBU) Ramsay also commented that Turkmenistan's cash flow situation also seems to have changed substantially from five years ago. Five years ago, Turkmenistan was getting "beads and wampum" for its gas, while it is now looking forward to getting \$150 per thousand cubic meters (tcm) of gas from Gazprom by the second half of 2008. However, Ramsay added, it is not clear that Turkmenistan is using that cash much better than before. Later, Ramsay expressed concern that the Central Asia-Center (CAC) pipeline, Turkmenistan's main gas export route to Russia, has not been well maintained for a

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long time. Russia has no fallback if the CAC supply were cut off because of a major rupture, and such an event would also affect Russia's supply of gas to Europe.

TURKMEN OFFICIALS LACK CONFIDENCE IN DEALING WITH THE "BIG GUYS"

15. (SBU) Ramsay noted that a number of large international oil companies had expressed interest in doing business in Turkmenistan. While the Government of Turkmenistan had welcomed these companies' interest, however, Ramsay had the sense that government officials felt intimidated by these companies -- they would prefer to work with smaller firms, such as Parker Drilling -- and would likely take their time in making any decisions related to contracts with these larger firms. In the meantime, he predicted, Turkmenistan would look to national companies of countries where it has some influence, in hopes of not getting in over its head. And, while the "big guys" want to be onshore, Ramsay said, he has the sense that they will be waiting for a while for the government's agreement -- unless they can come up with a very new way to structure their agreements, as the French company Total had done elsewhere. That said, Turkmenistan has very difficult-to-access deposits onshore that Turkmenogas does not have the technology to work. This means that the government eventually will have to call on others to help it.

RAMSAY RAISES IRAN AND RUSSIA WITH PRESIDENT...

16. (SBU) IEA's meeting with President Berdimuhamedov was 50 minutes and "very cordial," according to Ramsay. The president talked about the hydrocarbons markets in China and Europe, and strategies -- such as a Trans-Caspian pipeline (TCP) and Chinese pipeline -- for getting Turkmenistan's gas to those markets. IEA also raised Iran's limited ability to import much gas on anything other than a seasonal basis, and Russia's stranglehold on Turkmenistan's gas. Ramsay said that he described the Chinese pipeline as a "Declaration of Independence" from Russia. Berdimuhamedov invited Ramsay to return to Turkmenistan.

AND TRANSPARENCY WITH MURADOV

¶17. (SBU) By contrast, Ramsay found the Executive Director of the State Agency for Management and Use of Hydrocarbon Resources, Bayrammyrat Muradov, "crusty" and "Soviet in style." According to Ramsay, Muradov asked why he should be talking to the IEA if the organization had nothing concrete to offer. Muradov's manner lightened up substantially after Ramsay dropped a huge stack of IEA-generated information and statistics on the table for Muradov to use after the group's departure. With Muradov, Ramsay made the point that, if Turkmenistan continues to sell its gas at the border, the government needs to be more transparent about its reserves if it really wants the outside world to invest in new pipelines, such as a TCP. No company will want to commit the necessary financial resources for a new pipeline unless it can be certain that there are enough reserves to keep the pipeline operating.

PIEBALGS A "STRAIGHT SHOOTER"

¶18. (SBU) Noting EU Commissioner for Energy Andris Piebalgs' visit to Turkmenistan during the November 13-15 Turkmenistan International Oil and Gas Exhibition (TIOGE), Ramsay said that Europe has awakened to the need for an energy policy. Inside the EU, however, there is no unity or harmony on this issue. Ramsay also added that Piebalgs' visit was a good sign because he is perhaps the most lucid of the EU energy community. Although he shoots straight, he is not a hardliner, possibly because of his Latvian background.

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INVESTMENT CLIMATE NEEDS IMPROVING

¶19. (SBU) Ramsay said he also made the point to both Berdimuhamedov and Muradov that Turkmenistan needs to change the investment climate for oil and gas companies to want to come to Turkmenistan, but it also needs to change the climate for investment in its electricity production. Many companies want to work in the electricity production sector, but Turkmenistan needs to produce a guaranteeable electricity rate base for companies to be willing to make the investment.

¶10. (SBU) COMMENT: The president clearly was prepared to listen to Ramsay, a representative of an international organization that is viewed as an expert but impartial -- or, at least, less partisan -- observer of international hydrocarbon developments. While not all Ramsay's carefully thought-out messages may have struck pay dirt this time around, post sees merit in such visits, since they allow others to reinforce messages that the United States itself has been seeking to send, while gradually allowing Turkmenistan to find a new role in the international community.

CURRAN